

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

At December 31, 2000 or for the year ended	Wireline	Wireless	Directory	Inter- national	Other	Consolidated Segment Elim.	Segment Results	Cingular De- consolidation	Reconciling Adjustments	As Reported
Revenues from										
external customers	\$39,709	\$ 7,941	\$4,251	\$ 320	\$ 1,012	\$ (22)	\$53,211	\$ (1,814)	\$ (23)	\$51,374
Intersegment revenues	182	1	89	8	86	(366)	—	—	—	—
Total segment operating revenues	39,891	7,942	4,340	328	1,098	(388)	53,211	(1,814)	(23)	51,374
Operations and support expenses	23,659	5,348	2,017	459	644	(388)	31,739	(1,338)	755	31,156
Depreciation and amortization expenses	7,869	1,083	32	17	350	—	9,351	(253)	650	9,748
Total segment operating expenses	31,528	6,431	2,049	476	994	(388)	41,090	(1,591)	1,405	40,904
Segment operating income	8,363	1,511	2,291	(148)	104	—	12,121	(223)	(1,428)	10,470
Interest expense	—	—	—	—	1,638	—	1,638	(46)	—	1,592
Interest income	—	—	—	—	187	—	187	92	—	279
Equity in net income of affiliates	(12)	12	—	862	(1)	—	861	72	(36)	897
Other income (expense) – net	—	—	—	—	397	—	397	16	2,149	2,562
Segment income before income taxes	8,351	1,523	2,291	714	(951)	—	11,928	3	685	12,616
Segment assets	66,087	14,478	2,820	12,284	57,667	(42,483)	N/A	(12,202)	N/A	98,651
Investment in equity method investees	(5)	232	20	9,394	2,777	—	N/A	(40)	N/A	12,378
Expenditures for additions to long-lived assets	12,093	1,467	35	—	140	—	N/A	(611)	N/A	13,124

## Geographic Information

Our investments outside of the United States are primarily accounted for under the equity method of accounting. Accordingly, we do not include in our operating revenues and expenses the revenues and expenses of these individual investees. Therefore, less than 1% of our total operating revenues for all years presented are from outside the United States.

Long-lived assets consist primarily of net property, plant and equipment; goodwill; and the book value of our equity investments, and are shown in the table below:

December 31,	2002	2001
United States	\$54,934	\$57,174
Canada	—	3,429
Denmark	2,689	1,959
Belgium	1,122	876
Mexico	945	1,008
France	—	478
South Africa	623	415
Other foreign countries	290	32
Total	\$60,603	\$65,371

## NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	Lives (years)	2002	2001
Land	—	\$ 627	\$ 601
Buildings	35-45	11,168	10,645
Central office equipment	3-10	54,774	52,164
Cable, wiring and conduit	10-50	50,665	49,008
Other equipment	5-15	9,997	10,277
Software	3	3,016	2,044
Under construction	—	1,508	2,785
		131,755	127,524
Accumulated depreciation and amortization		83,265	77,697
Property, plant and equipment – net		\$ 48,490	\$ 49,827

Our depreciation expense was \$8,379, \$8,596 and \$8,480 for 2002, 2001 and 2000.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases for 2002, 2001 and 2000 were \$586, \$799 and \$755. At December 31, 2002, the future minimum rental payments under noncancelable operating leases for the years 2003 through 2007 were \$385, \$385, \$266, \$205 and \$175 with \$310 due thereafter. Capital leases are not significant.

### SpectraSite Agreement

In August 2000, SBC and SpectraSite reached an agreement under which we granted the exclusive rights to lease space on up to approximately 3,900 communications towers to SpectraSite. These leases were scheduled to close over a period ending in 2002. SpectraSite also agreed to build or buy an estimated 800 new towers for Cingular over the next five years. Cingular will sublease space on the towers from SpectraSite and will have expansion rights on a majority of the existing towers. Cingular's sublease payments to SpectraSite reduce Cingular's net income and should partially offset the income (described below) we receive from SpectraSite. As a result, we do not expect this agreement to have a material effect on our net income.

Under terms of the original agreement, if all communications towers were leased by SpectraSite, we would receive total consideration of approximately \$1,300 in a combination of cash of \$983 and SpectraSite common stock valued at \$325, or \$22.659 per share. The consideration represents prepayments on the operating leases with SpectraSite, is initially recorded as deferred revenue, and will be recognized in income as revenue over the life of the leases and is subject to future adjustment depending on changes in the stock price of SpectraSite. The SpectraSite shares we received were subject to restrictions on later sale by us. In addition, the agreement specified that we would receive additional shares of SpectraSite stock in the event of a decline in price of SpectraSite, up to a maximum of three-fourths of one share for each share held by us at the end of an initial three-year holding period.

During 2001, we received cash of \$495 and SpectraSite stock in exchange for leasing 2,665 communication towers to SpectraSite. Also during the third quarter of 2001, we recognized an other-than-temporary decline of \$162 (\$97 net of tax) in the value of SpectraSite shares we received as payment of future rents on land and wireless towers and related equipment. This amount reflected the decline in the stock market price of SpectraSite shares below our carrying value. As we were required to hold the shares, we determined that we needed to adjust the value of the total consideration received from entering into the leases to reflect actual realizable value. Accordingly, we reduced the amount of deferred revenue that was recorded when these shares were originally received. This adjustment will have the effect of reducing revenue recognized on the leases in the future.

In November 2001, we amended our agreement with SpectraSite. We agreed to reduce the maximum number of communication towers to be leased to SpectraSite to 3,600 and to extend the schedule for closing on tower subleases until the first quarter of 2004. As consideration for those modifications, we received \$35.

In June 2002, with SpectraSite stock trading at approximately \$0.18 per share, we recorded another other-than-temporary decline of \$40 (\$24 net of tax). The potential maximum number of additional shares we could receive under terms of the agreement for our holdings as of December 31, 2002, was 7.4 million.

In November 2002, SpectraSite and certain of its senior debt holders agreed to restructure its debt. To effect the restructuring, SpectraSite filed a "pre-arranged" plan of reorganization under Chapter 11 of the United States

Bankruptcy Code. We agreed with SpectraSite, subject to completion of its Chapter 11 reorganization, to decrease to approximately 3,300 the number of towers to be leased to SpectraSite and to extend the schedule for closing on tower subleases until the third quarter of 2004. It is not known at this time what effect the Chapter 11 filing will have on the value of our holdings in SpectraSite.

### NOTE 6. EQUITY INVESTMENTS

We account for investments in equity affiliates under the equity method of accounting. Our equity investments include our nationwide wireless joint venture, Cingular, and various international investments.

The following table is a reconciliation of our investments in equity affiliates:

	2002	2001	2000
Beginning of year	\$11,967	\$12,378	\$10,648
Additional investments	268	184	783
Cingular contributions	299	506	2,688
Equity in net income	1,921	1,595	897
Dividends received	(335)	(840)	(376)
Currency translation adjustments	962	(528)	(849)
Dispositions	(867)	(113)	(811)
Other adjustments	(3,745)	(1,215)	(602)
End of year	\$10,470	\$11,967	\$12,378

The currency translation adjustment for 2002 primarily reflects the effect of exchange rate fluctuations on our investments in TDC, Belgacom S.A. (Belgacom) and Telkom S.A. Limited (Telkom). Dispositions for 2002 reflect the sale of shares of Bell Canada of \$719 (see Note 2), Telmex L shares of \$98, América Móvil L shares of \$40 and Amdocs shares of \$10. Other adjustments for 2002 include adjustments of \$2,887 and \$696 resulting from our change from the equity method to the cost method of accounting for investments in Bell Canada and Cegetel, respectively (see Note 2). Other adjustments for 2002 also included a dividend from TDC that was treated as a return of capital due to TDC's insufficient undistributed earnings.

The currency translation adjustment for 2001 primarily reflects the effect of exchange rate fluctuations on our investments in Bell Canada, Telkom, Telmex and América Móvil. Dispositions for 2001 reflect our sale of TransAsia Telecommunications, Amdocs shares and diAx A.G. (diAx). Other adjustments for 2001 include the return of capital in Cingular and a dividend from TDC that was treated as a return of capital due to the nature of our investment in TDC, where we appoint six of twelve Board members, including the tie-breaking vote.

The currency translation adjustment for 2000 primarily reflects the effect of exchange rate fluctuations on our investments in TDC, Telmex, Telkom and Bell Canada. Dispositions for 2000 include the sale of our investment in MATÁV and the sale of Telmex L shares. Other adjustments for 2000 primarily consist of our contribution of ATL to Telecom Américas.

Undistributed earnings from equity affiliates were \$3,929 and \$2,858 at December 31, 2002 and 2001, including \$1,868 and \$1,109 from Cingular.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

## Wireless

We account for our 60% economic interest in Cingular under the equity method of accounting in our consolidated financial statements since we share control equally (i.e., 50/50) with our 40% economic partner in the joint venture. We have equal voting rights and representation on the board of directors that controls Cingular. Cingular serves approximately 22 million wireless customers, is the second-largest wireless operator in the United States and has approximately 231 million potential customers in 45 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

The following table presents summarized financial information for Cingular at December 31, or for the period then ended:

	2002	2001	2000 (3 months)
<b>Income Statements</b>			
Operating revenues	\$14,727	\$14,108	\$3,060
Operating income	2,280	2,518	381
Net income	1,207	1,692	127
<b>Balance Sheets</b>			
Current assets	\$ 2,731	\$ 2,557	
Noncurrent assets	21,391	19,973	
Current liabilities	2,787	3,224	
Noncurrent liabilities	13,794	13,456	

Our initial contributions to Cingular in October 2000 included current assets of \$2,100, noncurrent assets of \$10,100, current liabilities of \$1,400 and noncurrent liabilities of \$8,100.

In 2002, we entered into a related-party agreement with Cingular to provide wholesale long-distance services to Cingular. Revenue from these long-distance services was approximately \$123 in 2002.

At December 31, 2002, we had notes receivable from Cingular of \$5,922 bearing interest at the annual rate of 7.5%. In November 2002, we extended the maturity of the advances from March 31, 2004, to March 31, 2005. We may continue to extend the maturity of the advances to the extent required in connection with Cingular's external credit facility. This interest income does not have a material impact on our net income as it is mostly offset when we record our share of equity income in Cingular. The interest income from Cingular was approximately \$441 in 2002 and \$555 in 2001.

In October 2001, Cingular announced it plans to begin upgrading its network to EDGE (Enhanced Data Rates for Global Evolution) third-generation wireless data technology. Cingular targets completion of the upgrade for the end of 2004 and approximates capital expenditures of \$2,600 to \$2,800 for the entire upgrade project. We expect funding for this upgrade to be provided by Cingular.

## International

Our investments in equity affiliates include a 7.6% interest in Telmex, Mexico's national telecommunications company; a 7.6% interest in América Móvil, primarily a wireless provider in Mexico, with telecommunications investments in the

United States and Latin America; a 41.6% interest in TDC, the national communications provider in Denmark; a 17.5% interest in Belgacom, the national communications provider in Belgium; and an 18% interest in Telkom, the state-owned telecommunications company of South Africa. TDC also holds a 16.5% interest in Belgacom, bringing our effective interest to 24.4%.

In the second quarter of 2002, we entered into two agreements with Bell Canada: (1) to redeem a portion of our ownership in Bell Canada, representing approximately 4% of the company and (2) to give BCE the right to purchase our remaining interest in Bell Canada. BCE exercised its right to purchase our remaining interest in Bell Canada during the fourth quarter of 2002. See Note 2 for a more detailed discussion on this divestiture.

In 2002, we agreed to sell to Vodafone our 15% equity interest in Cegetel, a joint venture that owns 80% of the second-largest wireless provider in France. The pending sale removed our significant influence and required us to change our accounting for Cegetel to the cost method from the equity method. With this change, the value of our investment is reflected in the "Other Assets" line on our December 31, 2002 Consolidated Balance Sheet. This transaction closed in the first quarter of 2003. (See Note 2)

The following table presents summarized financial information of our significant international investments accounted for using the equity method, taking into account all adjustments necessary to conform to GAAP but excluding our purchase adjustments, including goodwill, at December 31 or for the year then ended:

	2002	2001	2000
<b>Income Statements</b>			
Operating revenues	\$29,450	\$44,662	\$40,190
Operating income	13,010	11,598	11,911
Net income	6,380	5,838	5,714
<b>Balance Sheets</b>			
Current assets	\$ 7,668	\$12,491	
Noncurrent assets	27,636	47,395	
Current liabilities	7,631	17,495	
Noncurrent liabilities	17,105	25,539	

At December 31, 2002, we had goodwill of approximately \$1,682 related to our international investments in equity affiliates.

Based on the December 31, 2002 quoted market price of TDC stock, the aggregate market value of our investment in TDC was approximately \$2,142. The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares at December 31, 2002, was approximately \$1,555. The fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares at December 31, 2002, was approximately \$707. Belgacom and Telkom were not publicly traded at December 31, 2002, and thus do not have a readily available market value. Our weighted average share of operating revenues shown above was 16% in 2002 and 17% in 2001 and 2000.

## NOTE 7. DEBT

Long-term debt of SBC and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

	2002	2001
Notes and debentures		
0.00% – 5.98% 2002 – 2038 <sup>1</sup>	\$ 6,666	\$ 5,800
6.03% – 7.85% 2002 – 2048 <sup>2</sup>	13,118	14,006
8.85% – 10.50% 2005 – 2016	166	240
	19,950	20,046
Unamortized discount – net of premium	(203)	(170)
Total notes and debentures	19,747	19,876
Capitalized leases	143	248
Total long-term debt, including current maturities	19,890	20,124
Current maturities of long-term debt	(1,354)	(2,991)
Total long-term debt	\$18,536	\$17,133

<sup>1</sup>Includes \$1,000 of 4.295% PURS maturing in 2021 with a put option by holder in 2003 and \$250 of 5.95% debentures maturing in 2038 with a put option by holder in 2005.

<sup>2</sup>Includes \$125 of 6.35% debentures maturing in 2026 with a put option by holder in 2006.

At December 31, 2002, the aggregate principal amounts of long-term debt and weighted average interest rate scheduled for repayment for the years 2003 through 2007 were \$1,354 (6.0%), \$861 (6.5%), \$1,100 (6.8%), \$2,623 (5.9%) and \$933 (6.3%) with \$13,222 (6.5%) due thereafter. As of December 31, 2002, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured.

### Financing Activities

During 2002, approximately \$895 in long-term notes matured. In addition to these maturities, we redeemed notes totaling approximately \$456 and issued approximately \$3,244 of new notes whose proceeds were used primarily to pay down short-term borrowings and for general corporate purposes.

During the first quarter of 2002, we reclassified \$1,000 of 20-year annual Puttable Reset Securities (PURS) from debt maturing within one year to long-term debt. The PURS, a registered trademark, contain a 20-year series of simultaneous annual put and call options at par. These options are exercisable on June 5 of each year until June 5, 2021. At the time of issuance, we sold to an investment bank the 20-year option to call the PURS on each annual reset date of June 5. If the call option is exercised, each PURS holder will be deemed to have sold its PURS to the investment banker. The investment banker will then have the right to remarket the PURS at a new interest rate for an additional 12-month period. The new annual interest rate will be determined according to a pre-set mechanism based on the then prevailing London Interbank Offer Rate (LIBOR). If the call option is not exercised on any given June 5, the put option will be deemed to have been exercised, resulting in the redemption of the PURS on that June 5. The proceeds of the PURS were used to retire short-term debt and for general

corporate purposes. There are no special covenants or other provisions applicable to the PURS. The company supports this long-term classification based on its intent and ability to refinance the PURS on a long-term basis.

In February 2002, we issued a \$1,000 global bond. The bond pays interest semi-annually at a rate of 5.875%. The bond will mature on February 1, 2012. Proceeds from this debt issuance were used for general corporate purposes.

In March 2002, we issued two \$500 one-year notes. The notes pay interest quarterly. The interest rate is based on LIBOR, which is determined two London business days preceding the settlement date. Proceeds from this debt issuance were used to refinance debt.

In August 2002, we issued \$1,000 global notes. The notes pay interest semi-annually at a rate of 5.875%. The notes will mature on August 15, 2012. Proceeds from this debt issuance were used primarily to repay a portion of our commercial paper borrowings and for general corporate purposes.

In the fourth quarter of 2002, we restructured our holdings in certain investments, including Sterling. As part of this restructuring, a newly created subsidiary issued a note for approximately \$244, with an interest rate of 4.79%. The note is scheduled to mature in December 2007. (See Note 2)

In December 2002, we redeemed, prior to maturity, approximately \$50 of debt with a yield of 7.0%. The debt obligation was originally scheduled to mature in December 2020. In November 2002, we redeemed, prior to maturity, approximately \$350 of multiple debt obligations that were originally scheduled to mature between October 2005 and April 2007. These notes carried interest rates ranging between 4.75% and 5.5%, with an average yield of 5.3%. We also redeemed, prior to maturity, approximately \$55 of debt obligations during June 2002.

Debt maturing within one year consists of the following at December 31:

	2002	2001
Commercial paper	\$1,148	\$6,039
Current maturities of long-term debt	1,354	2,991
Other short-term debt	1,003	3
Total	\$3,505	\$9,033

The weighted average interest rate on commercial paper debt at December 31, 2002 and 2001 was 1.43% and 2.07%. In October 2002, we entered into a 364-day credit agreement totaling \$4,250 with a syndicate of banks replacing pre-existing credit agreements of approximately \$3,700. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. Under the terms of the agreement, repayment of advances up to \$1,000 may be extended two years from the termination date of the agreement. Repayment of advances up to \$3,250 may be extended to one year from the termination date of the agreement. There is no material adverse change provision governing the drawdown of advances under this credit agreement. We had no borrowings outstanding under committed lines of credit as of December 31, 2002 or 2001.

Dollars in millions except per share amounts

**NOTE 8. FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$19,747	\$20,992	\$19,876	\$20,315
Preferred stock of subsidiaries	393	393	350	350

The fair values of our notes and debentures were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The carrying amount of commercial paper debt approximates fair value. Our short-term investments and customer deposits are recorded at amortized cost, and the carrying amounts approximate fair values. Our notes receivable from Cingular are recorded at face value, and the carrying amounts approximate fair values.

**Preferred Stock Issuances by Subsidiaries** – In the fourth quarter of 2002, we restructured our holdings in certain investments, including Sterling. As part of this restructuring, a newly created subsidiary issued approximately \$43 of preferred stock. The preferred stock will accumulate dividends at an annual rate of 5.79% and can be converted, at the option of the holder, to common stock (but not a controlling interest) of the subsidiary at any time. (See Note 2)

In June 1997 and December 1999, a subsidiary issued \$250 and \$100 of preferred stock in private placements. The holders of the preferred stock may require SBC's subsidiary to redeem the shares after May 20, 2004. Holders receive quarterly dividends based on a rolling three-month LIBOR. The dividend rate for the December 31, 2002, payment was 2.57%.

The preferred stock of subsidiaries discussed above is included in "Other noncurrent liabilities" on the Consolidated Balance Sheets.

**Derivatives** – We use interest rate swaps to manage interest rate risk. The notional amounts, carrying amounts and estimated fair values of our derivative financial instruments are summarized as follows at December 31:

	Notional Amount	Carrying Amount	Fair Value
<b>2002</b>			
Interest rate swaps	\$1,000	\$0	\$84
<b>2001</b>			
Interest rate swaps	\$ 580	\$0	\$ 5

As discussed in Note 2, we disposed of our interest in Bell Canada during 2002. Because we were to receive CAD as proceeds for this redemption, we entered into a series of foreign currency exchange contracts to provide us with a fixed rate of conversion of these CAD proceeds into U.S. dollars. We entered into a series of forward contracts to sell 1,500 CAD on January 3, 2003, at an average exchange rate of 1.53. There was no initial upfront cost to enter into these contracts. As the amount of the remaining proceeds that we would receive in CAD was uncertain, we entered into two

put option contracts, which gave us the right to sell up to 3,192 CAD on January 3, 2003, at an average exchange rate of 1.57. We paid fees of approximately \$28 to enter into these contracts. During the fourth quarter of 2002, we closed on the sale of our remaining 16% interest in Bell Canada. Coinciding with that close, we sold the put option contracts and recovered the initial option fee of \$28. Additionally, we purchased forward contracts for January 2003 in an amount equaling our obligation under the forward sale contracts listed above. With these trades, our effective foreign exchange forward obligation as of December 31, 2002, was zero.

**NOTE 9. INCOME TAXES**

Significant components of our deferred tax liabilities and assets are as follows at December 31:

	2002	2001
Depreciation and amortization	\$ 9,231	\$ 6,749
Equity in foreign affiliates	643	586
Deferred directory expenses	493	498
Other	4,611	3,777
Deferred tax liabilities	14,978	11,610
Employee benefits	3,078	2,046
Currency translation adjustments	519	871
Allowance for uncollectibles	456	286
Unamortized investment tax credits	93	106
Other	1,285	1,329
Deferred tax assets	5,431	4,638
Deferred tax assets valuation allowance	148	140
Net deferred tax liabilities	\$ 9,695	\$ 7,112

The increase in the valuation allowance is the result of an evaluation of the uncertainty associated with the realization of certain deferred tax assets. The valuation allowance is maintained in deferred tax assets for certain unused federal and state loss carryforwards.

The components of income tax expense are as follows:

	2002	2001	2000
<b>Federal:</b>			
Current	\$ 377	\$1,803	\$3,249
Deferred – net	2,251	1,587	961
Amortization of investment tax credits	(30)	(44)	(71)
	2,598	3,346	4,139
<b>State and local:</b>			
Current	116	206	575
Deferred – net	219	385	98
Foreign	51	15	4
	386	606	677
<b>Total</b>	<b>\$2,984</b>	<b>\$3,952</b>	<b>\$4,816</b>

In the fourth quarter of 2002, we internally restructured our ownership in several investments, including Sterling (see Note 2). The restructuring, included the issuance of external debt (see Note 7), and the issuance and sale of preferred securities in subsidiaries (see Note 8). As we remain the primary beneficiary after the restructuring, the preferred

securities are classified as "Other noncurrent liabilities" on our Consolidated Balance Sheet, and no gain or loss was recorded on the transaction. As a result of the sale of preferred securities, we recognized in net income \$280 of tax benefits on certain financial expenses and losses that were not previously eligible for deferred tax recognition.

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, extraordinary items and cumulative effect of accounting change is as follows:

	2002	2001	2000
Taxes computed at federal statutory rate	\$3,660	\$3,842	\$4,416
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	251	394	440
Restructuring/sale of preferred interest	(280)	—	—
Effects of international operations	(354)	(22)	(207)
Goodwill amortization	—	86	124
Tax settlements	(171)	—	—
Contributions of appreciated investments	—	(208)	—
Other – net	(122)	(140)	43
Total	\$2,984	\$3,952	\$4,816

Effects of international operations include items such as foreign tax credits and the effects of undistributed earnings from international operations. Deferred taxes are not provided on the undistributed earnings of subsidiaries operating outside the United States that have been or are intended to be permanently reinvested.

#### NOTE 10. PENSION AND POSTRETIREMENT BENEFITS

**Pensions** – Substantially all of our employees are covered by one of various noncontributory pension and death benefit plans. At December 31, 2002, management employees participated in either cash balance or defined lump sum pension plans with a minimum based upon a stated percentage of employees' adjusted career income. The pension benefit formula for most nonmanagement employees is based on a flat dollar amount per year according to job classification. Most employees can elect to receive their pension benefits in either a lump sum payment or annuity.

Our objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), is to accumulate assets sufficient to meet the plans' obligations to provide benefits to employees upon their retirement. Required funding is based on the present value of future benefits, which is similar to the projected benefit obligation discussed below. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. No significant cash contributions to the trust will be required under ERISA regulations during 2003;

however, we reserve the right to make contributions in excess of minimum funding requirements. During 2004, we expect that we will be required to make contributions of approximately \$25. Plan assets consist primarily of private and public equity, government and corporate bonds, index funds and real estate.

Per our joint venture agreement with BellSouth, our employees who were previously leased to Cingular became Cingular employees on or before December 31, 2001. The pension assets and liabilities related to those former employees were transferred to Cingular during 2001, with an immaterial true-up amount based on final valuations transferred from Cingular during 2002. The amounts that follow reflect the impacts of the transfer of employees to Cingular.

GAAP requires that we disclose the reconciliation of the beginning and ending balances of the benefit obligation. For defined benefit pension plans, the benefit obligation is the "projected benefit obligation", the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered to that date. The following table presents this reconciliation and shows the change in the projected benefit obligation for the years ended December 31:

	2002	2001
Benefit obligation at beginning of year	\$25,060	\$25,577
Service cost – benefits earned during the period	645	550
Interest cost on projected benefit obligation	1,780	1,847
Amendments	(33)	317
Actuarial loss	2,534	1,512
Special termination benefits	456	164
Transfer to Cingular	—	(167)
Benefits paid	(4,294)	(4,740)
Benefit obligation at end of year	\$26,148	\$25,060

The following table presents the change in the value of pension plan assets for the years ended December 31 and the pension plans' funded status at December 31:

	2002	2001
Fair value of plan assets at beginning of year	\$32,715	\$40,814
Actual return on plan assets	(3,442)	(2,798)
Transfer (to) from Cingular	6	(290)
Benefits paid	(4,280)	(5,011)
Fair value of plan assets at end of year <sup>1</sup>	\$24,999	\$32,715
(Unfunded) funded status (fair value of plan assets less benefit obligation) <sup>2</sup>	\$ (1,149)	\$ 7,655
Unrecognized prior service cost	1,642	1,946
Unrecognized net (gain) loss	7,777	(1,852)
Unamortized transition asset	(218)	(412)
Net amount recognized	\$ 8,052	\$ 7,337

<sup>1</sup>Plan assets include SBC common stock of \$8 at December 31, 2002, and \$14 at December 31, 2001.

<sup>2</sup>(Unfunded) funded status is not indicative of our ability to pay ongoing pension benefits. As noted above, required pension funding is determined in accordance with ERISA regulations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

Amounts recognized in our Consolidated Balance Sheets at December 31 are listed below and are discussed in the second paragraph following these tables:

	2002	2001
Prepaid pension cost <sup>1</sup>	\$ 8,052	\$ 7,337
Additional minimum pension liability <sup>2</sup>	(3,455)	—
Intangible asset <sup>1</sup>	1,078	—
Accumulated other comprehensive income	1,473	—
Deferred tax asset	904	—
Net amount recognized	\$ 8,052	\$ 7,337

<sup>1</sup>Included in "Other Assets".

<sup>2</sup>Included in "Postemployment benefit obligation".

The following table presents the components of net pension benefit recognized in our Consolidated Statements of Income (gains are denoted with brackets and losses are not):

	2002	2001	2000
Service cost – benefits earned during the period	\$ 645	\$ 550	\$ 525
Interest cost on projected benefit obligation	1,780	1,847	1,927
Expected return on plan assets	(3,429)	(3,515)	(3,149)
Amortization of prior service cost and transition asset	100	81	43
Recognized actuarial gain	(233)	(413)	(491)
Net pension benefit	\$(1,137)	\$(1,450)	\$(1,145)

In determining the projected benefit obligation and the net pension benefit, we used the following significant weighted-average assumptions:

	2002	2001	2000
Discount rate for determining projected benefit obligation	6.75%	7.50%	7.75%
Long-term rate of return on plan assets	9.50%	9.50%	8.50%
Composite rate of compensation increase	4.25%	4.25%	4.25%

As noted above, the projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. While the calculation of this obligation is very complex, the process generally consists of estimating the amount of retirement income payments in future years after the employee retires or terminates service and calculating the present value at the measurement date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of average life of employees/survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels. In accordance with GAAP, our assumed discount rate of 6.75% at December 31, 2002, reflects the hypothetical rate at which the projected benefit obligation could be effectively settled, or paid out to participants, on that date. We determined our discount rate based on a range of factors including the rates of return on high-quality, fixed-income investments available at the time of measurement. The reduction in the discount rate at

December 31, 2002 and 2001, by 0.75% and by 0.25%, respectively, resulted in an increase in our pension plan benefit obligation of approximately \$1,480 and \$471 at December 31, 2002 and 2001. Should actual experience differ from actuarial assumptions, the projected benefit obligation and net pension benefit would be affected.

In contrast to the projected benefit obligation, the accumulated benefit obligation represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. Under GAAP, on a plan-by-plan basis, if the accumulated benefit obligation exceeds plan assets and at least this amount has not been accrued, an additional minimum liability must be recognized, partially offset by an intangible asset for unrecognized prior service cost, with the remainder a direct charge to equity net of deferred tax benefits. These items are included in the third table above that presents the amounts recognized in our Consolidated Balance Sheets at December 31. For three of our plans, the accumulated benefit obligation at December 31, 2002 (aggregate balance of \$13,289) exceeded plan assets at December 31, 2002 (aggregate balance of \$11,525) and we were required to record an additional minimum liability of \$3,455 and a direct charge to equity of \$1,473 (net of deferred taxes of \$904) during the fourth quarter of 2002. This direct charge, while reducing equity and comprehensive income, will not affect our future results of operations or cash flows.

During 2002 and 2001, as part of our work force-reduction programs, an enhanced retirement program was offered to eligible Pacific Telesis Group (PTG) nonmanagement employees. This program offered eligible employees who voluntarily decided to terminate employment an enhanced pension benefit and increased eligibility for postretirement medical, dental and life insurance benefits. Approximately 3,600 and 1,400 employees accepted this offer and terminated employment before the end of December 31, 2002 and 2001. Also, approximately 200 additional employees accepted the offer during 2002 and terminated employment in January 2003. In addition to the net pension benefit reported in the table above, enhanced pension benefits related to this program were recognized as an expense of \$456 in 2002 and \$164 in 2001.

In October 2000, we implemented a voluntary enhanced pension and retirement program (EPR) to reduce the number of management employees. Approximately 7,000 of the employees who accepted this offer terminated employment before December 31, 2000; however, under the program, approximately 2,400 employees were retained for up to one year. In addition to the net pension benefit reported in the table above, enhanced pension benefits related to this program were recognized as an expense of \$1,104 in 2000. We also recognized \$976 in settlement gains and \$80 in curtailment losses in 2000 and \$940 in settlement gains in 2001 primarily associated with the EPR program.

Also, in addition to the net pension benefit reported in the table above and the aforementioned EPR settlement/curtailment gains, we recognized \$29 in net settlement gains in 2002, \$423 in 2001 and \$1,196 in 2000. Net settlement gains in 2002 include settlement losses during the

latter part of the year, reflecting the continued investment losses sustained by the plan. We anticipate that additional lump sum payments will be made in 2003 in connection with our planned work force-reductions. We cannot estimate at this time if these payments will require the recognition of settlement losses in 2003.

In December 2001, under the provisions of Section 420 of the Internal Revenue Code, we transferred \$286 in pension assets to a health care benefit account for the reimbursement of certain retiree health care benefits paid by us.

**Postretirement Benefits** – We provide certain medical, dental and life insurance benefits to substantially all retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits. While many companies do not, we maintain Voluntary Employee Beneficiary Association trusts to partially fund these postretirement benefits; however, there are no ERISA or other regulations requiring these postretirement benefit plans to be funded annually. Trust assets consist principally of private and public equity, government and corporate bonds and index funds. The amounts that follow reflect the impacts of the 2001 transfer of employees to Cingular discussed above in "Pensions".

For postretirement benefit plans, the benefit obligation is the "accumulated postretirement benefit obligation", the actuarial present value as of a date of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to that date. The following table presents a reconciliation of the beginning and ending balances of the benefit obligation and shows the change in the accumulated postretirement benefit obligation for the years ended December 31:

	2002	2001
Benefit obligation at beginning of year	\$20,140	\$17,802
Service cost – benefits earned during the period	293	256
Interest cost on accumulated postretirement benefit obligation	1,430	1,316
Amendments	(1,110)	(605)
Actuarial loss	4,932	2,395
Special termination benefits	30	9
Transfer to Cingular	—	(36)
Benefits paid	(1,151)	(997)
Benefit obligation at end of year	\$24,564	\$20,140

The following table sets forth the change in the value of plan assets for the years ended December 31, the plans' funded status at December 31 and the accrued postretirement benefit obligation liability recognized in our Consolidated Balance Sheets at December 31:

	2002	2001
Fair value of plan assets at beginning of year	\$ 6,275	\$ 7,220
Actual return on plan assets	(802)	(641)
Employer contribution	3	—
Benefits paid	(559)	(304)
Fair value of plan assets at end of year <sup>1</sup>	\$ 4,917	\$ 6,275
Unfunded status (fair value of plan assets less benefit obligation) <sup>2</sup>	\$(19,647)	\$(13,865)
Unrecognized prior service cost (benefit)	(1,109)	(28)
Unrecognized net loss	10,335	3,962
Accrued postretirement benefit obligation	\$(10,421)	\$(9,931)

<sup>1</sup>Plan assets include SBC common stock of \$5 at December 31, 2002 and \$13 at December 31, 2001.

<sup>2</sup>(Unfunded) funded status is not indicative of our ability to pay ongoing postretirement benefits. As noted above, while many companies do not, we maintain trusts to partially fund these postretirement benefits; however, there are no ERISA or other regulations requiring these postretirement benefit plans to be funded annually.

The following table presents the components of postretirement benefit cost recognized in our Consolidated Statements of Income (gains are denoted with brackets and losses are not):

	2002	2001	2000
Service cost – benefits earned during the period	\$ 293	\$ 256	\$ 245
Interest cost on accumulated postretirement benefit obligation	1,430	1,316	1,201
Expected return on assets	(689)	(665)	(549)
Amortization of prior service cost (benefit)	(28)	94	147
Recognized actuarial (gain) loss	49	13	(33)
Postretirement benefit cost	\$1,055	\$1,014	\$1,011

The fair value of plan assets restricted to the payment of life insurance benefits was \$516 and \$968 at December 31, 2002 and 2001. At December 31, 2002 and 2001, the accrued life insurance benefits included in the accrued postretirement benefit obligation were \$943 and \$614.

In addition to the postretirement benefit cost reported in the table above, enhanced benefits related to the PTG nonmanagement program were recognized as an expense of \$30 and \$9 in 2002 and 2001. Also, in 2000, we recognized \$71 in expense for enhanced benefits and \$107 in curtailment losses associated with EPR.

In response to rising medical and prescription drug claim costs, we increased the assumed medical cost trend rate in 2003 from 8.0% to 9.0% for retirees 64 and under and from 9.0% to 10.0% for retirees 65 and over, trending to an expected increase of 5.0% in 2009 for all retirees, prior to adjustment for cost-sharing provisions of the medical and



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

dental plans for certain retired employees. The assumed dental cost trend rate in 2003 is 5.0%. A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

	One Percentage- Point Increase	One Percentage- Point Decrease
Increase (decrease) in total of service and interest cost components	\$ 244	\$ (194)
Increase (decrease) in accumulated postretirement benefit obligation	2,968	(2,431)

We used the same significant assumptions for the discount rate, long-term rate of return on plan assets and composite rate of compensation increase used in developing the accumulated postretirement benefit obligation and related postretirement benefit costs that we used in developing the pension information. The reduction in the discount rate at December 31, 2002 and 2001 resulted in an increase in our postretirement benefit obligation of approximately \$2,062 and \$599 at December 31, 2002 and 2001. Should actual experience differ from the actuarial assumptions, the accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

For the majority of our nonmanagement labor contracts that contain an annual dollar value cap for the purpose of determining contributions required from retirees, we have waived the cap during the relevant contract periods and thus not collected contributions from those nonmanagement retirees. Therefore, in accordance with the substantive plan provisions required in accounting for postretirement benefits under GAAP, we do not account for the cap in the value of our accumulated postretirement benefit obligation (i.e., we assume the cap will be waived for all future contract periods). If we were able to account for the cap as written in the contracts, our postretirement benefit cost would have been reduced by \$606, \$476 and \$571 in 2002, 2001 and 2000. We expect that not accounting for the cap as written in the contracts will result in approximately \$900 of postretirement benefit cost during 2003.

## Combined Net Pension and Postretirement (Benefit)

**Cost** – The following table combines net pension benefit with postretirement benefit cost (gains are denoted with brackets and losses are not):

	2002	2001	2000
Net pension benefit	\$(1,137)	\$(1,450)	\$(1,145)
Postretirement benefit cost	1,055	1,014	1,011
Combined net pension and postretirement (benefit) cost	\$ (82)	\$ (436)	\$ (134)

Our combined net pension and postretirement benefit decreased in 2002 primarily due to a decreased asset base from net investment losses and previous recognition of pension settlement gains reducing the amount of unrealized gains recognized in the current year. The reduction in the discount rate from 7.75% to 7.5% used to calculate 2002 service and interest cost caused our combined net pension and postretirement benefit to decrease approximately \$58.

Increased medical and prescription drug claim costs also contributed to the decrease in combined net benefit in 2002.

As a result of this decrease in our combined net pension and postretirement benefit, we have taken steps to implement additional cost controls. To offset some of the increases in medical costs mentioned above, in mid-2002, we implemented cost-saving design changes in our management medical and dental plans including increased participant contributions for medical and dental coverage and increased prescription drug co-payments effective beginning in January 2003. These changes reduced our postretirement cost approximately \$96 in 2002. In 2003, we expect cost savings of approximately \$194 from these design changes.

While we will continue our cost-cutting efforts discussed above, certain factors mentioned above, such as investment returns, depend largely on trends in the U.S. securities market and the general U.S. economy. Our ability to improve the performance of those factors is limited. In particular, a continued weakness in the securities markets and U.S. economy could result in investment losses and a decline in plan assets, which under GAAP we will recognize over the next several years. As a result of these economic impacts and assumption changes discussed below, we will have a net pension and postretirement expense in 2003. We expect combined net pension and postretirement cost of between \$1,800 and \$2,000 (\$0.36 to \$0.40 per share) in 2003. Approximately 10% of these costs will be capitalized as part of construction labor, providing a small reduction in the net expense recorded. Should the securities markets continue to decline and medical and prescription drug costs continue to increase significantly, we would expect increasing annual combined net pension and postretirement cost for the next several years. Additionally, should actual experience differ from actuarial assumptions, combined net pension and postretirement cost would be affected in future years.

The weighted average expected return on assets assumption, which reflects our view of long-term returns, is one of the most significant of the weighted average assumptions used to determine our actuarial estimates of pension and postretirement benefit expense. Based on our long-term expectations of market returns in future years, we lowered our long-term rate of return on plan assets from 9.5% to 8.5% for 2003. If all other factors were to remain unchanged, we expect a 1% decrease in the expected long-term rate of return would cause 2003 combined pension and postretirement cost to increase approximately \$342 over 2002 (analogous change would result from a 1% increase).

As mentioned in Note 1, under GAAP, the expected long-term rate of return is calculated on the MRVA. GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the MRVA equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in the last several years, we expect this methodology to contribute approximately \$605 to our

combined net pension and postretirement cost in 2003 as compared with not using this methodology. This methodology did not have a significant effect on our 2002, 2001 or 2000 combined net pension and postretirement benefit as the MRVA was almost equal to the fair value of plan assets.

**Supplemental Retirement Plans** – We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. These plans include supplemental defined pension benefits as well as compensation deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral. Expenses related to these plans were \$142, \$166 and \$195 in 2002, 2001 and 2000. Liabilities of \$1,629 and \$1,479 related to these plans have been included in "Other noncurrent liabilities" on our Consolidated Balance Sheets at December 31, 2002 and 2001.

#### NOTE 11. EMPLOYEE STOCK OWNERSHIP PLANS (ESOP)

We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match a stated percentage of eligible employee contributions, subject to a specified ceiling.

As a result of past mergers, we had six leveraged ESOPs as part of our existing savings plans. Five of the ESOPs were funded with notes issued by the savings plans to various lenders, the proceeds of which were used to purchase shares of SBC's common stock in the open market. The original principal amounts were paid off in 2000 with our contributions to the savings plans, dividends paid on SBC shares and interest earned on funds held by the ESOPs. We extended the terms of certain ESOPs through previous internal refinancing of the debt, resulting in unallocated shares remaining in one of those ESOPs at December 31, 2002 and 2001 (unallocated shares at December 31, 2002 were significantly less than one million and are not included in the table below). This internal refinancing of the debt was paid off in December 2002 with our contributions to the savings plan, dividends paid on SBC shares and interest earned on funds held by the ESOPs.

One ESOP purchased Pacific Telesis (PAC) treasury shares in exchange for a promissory note from the plan to PAC. All PAC shares were exchanged for SBC shares effective with the merger April 1, 1997. The provisions of the ESOP were unaffected by this exchange. This promissory note from the plan to PAC was paid off in 2001.

Our match of employee contributions to the savings plans is fulfilled with shares of stock allocated from the ESOPs (through December 2002) and with purchases of SBC's stock in the open market. Shares held by the ESOPs were released for allocation to the accounts of employees as employer-matching contributions were earned. Benefit cost is based on a combination of the contributions to the savings plans and the cost of shares allocated to participating employees' accounts. Both benefit cost and interest expense on the

notes are reduced by dividends on SBC's shares held by the ESOPs and interest earned on the ESOPs' funds.

Information related to the ESOPs and the savings plans is summarized below:

	2002	2001	2000
Benefit expense – net of dividends and interest income	\$216	\$185	\$134
Interest expense – net of dividends and interest income	—	—	5
Total expense	\$216	\$185	\$139
Company contributions for ESOPs	\$165	\$177	\$ 47
Dividends and interest income for debt service	\$ 8	\$ 58	\$ 93

SBC shares held by the ESOPs are summarized as follows at December 31 (in millions):

	2002	2001
Unallocated	—	4
Allocated to participants	75	76
Total	75	80

#### NOTE 12. STOCK-BASED COMPENSATION

Under our various plans, senior and other management and nonmanagement employees and nonemployee directors have received stock options, performance stock units and other nonvested stock units. Stock options issued through December 31, 2002, carry exercise prices equal to the market price of the stock at the date of grant and have maximum terms ranging from five to ten years. Beginning in 1994 and ending in 1999, certain Ameritech employees were awarded grants of nonqualified stock options with dividend equivalents. Depending upon the grant, vesting of stock options may occur up to five years from the date of grant, with most options vesting on a graded basis over three years (1/3 of the grant vests after one year, another 1/3 vests after two years and the final 1/3 vests after three years from the grant date). Performance stock units are granted to key employees based upon the common stock price at the date of grant and are awarded in the form of common stock and cash at the end of a two- or three-year period, subject to the achievement of certain performance goals. Nonvested stock units are valued at the market price of the stock at the date of grant and vest over a three- to five-year period. As of December 31, 2002, we were authorized to issue up to 97 million shares of stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested

stock units) to officers, employees and directors pursuant to these various plans.

Prior to January 1, 2002, we accounted for these plans using the intrinsic value-based method of accounting as allowed by FAS 123. Effective January 1, 2002, we adopted the fair value recognition provisions of FAS 123. Under the retroactive restatement method of adoption we selected in accordance with the provisions of FAS 148, our 2001 and 2000 results have been restated to reflect the compensation costs that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees after January 1, 1995. We use an accelerated method of recognizing compensation cost for fixed awards with graded vesting, which essentially treats the grant as three separate awards, with vesting periods of 12, 24 and 36 months for those that vest over three years. As noted above, a majority of our options vest over three years and for those we recognize approximately 61% of the associated compensation expense in the first year, 28% in the second year and the remaining 11% in the third year. As allowed by FAS 123, we accrue compensation cost as if all options granted subject only to a service requirement are expected to vest. The effects of actual forfeitures of unvested options are recognized (as a reversal of expense) as they occur.

The compensation cost that has been charged against income for these plans and our other stock-based compensation plans is as follows:

	2002	2001	2000
Stock option expense under FAS 123	\$390	\$380	\$273
Mark-to-market effect on dividend equivalents	(36)	(33)	(23)
Other	19	33	42
<b>Total</b>	<b>\$373</b>	<b>\$380</b>	<b>\$292</b>

The estimated fair value of the options granted is amortized to expense over the options' vesting period. The fair value for these options was estimated at the date of grant, using a Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2002, 2001 and 2000: risk-free interest rate of 4.33%, 4.51% and 6.67%; dividend yield of 3.04%, 2.37% and 2.19%; expected volatility factor of 23%, 24% and 16%; and expected option life of 4.4, 4.0 and 4.6 years.

Information related to options is summarized below (shares in millions):

	Number	Weighted-Average Exercise Price
Outstanding at January 1, 2000	149	\$30.24
Granted	51	39.62
Exercised	(30)	24.22
Forfeited/Expired	(14)	41.05
Outstanding at December 31, 2000		
(101 exercisable at weighted-average price of \$29.22)	156	33.53
Granted	76	43.41
Exercised	(13)	24.41
Forfeited/Expired	(12)	43.09
Outstanding at December 31, 2001		
(109 exercisable at weighted-average price of \$32.36)	207	37.21
Granted	36	35.50
Exercised	(7)	20.80
Forfeited/Expired	(7)	41.20
Outstanding at December 31, 2002		
(154 exercisable at weighted-average price of \$36.48)	229	\$37.31

Information related to options outstanding at December 31, 2002:

	\$14.03-\$17.49	\$17.50-\$29.99	\$30.00-\$35.49	\$35.50-\$58.88
Exercise Price Range				
Number of options (in millions):				
Outstanding	5	46	8	170
Exercisable	5	46	7	96
Weighted-average exercise price:				
Outstanding	\$15.40	\$24.36	\$33.97	\$41.56
Exercisable	\$15.40	\$24.36	\$34.16	\$43.41
Weighted-average remaining contractual life	1.70 years	3.50 years	6.08 years	7.78 years

The weighted-average, grant-date fair value of each option granted during 2002, 2001 and 2000 was \$6.57, \$8.37 and \$8.31.

As of December 31, additional shares available under stock options with dividend equivalents were approximately 1 million in 2002, 2001 and 2000. During 2002, 2001 and 2000, performance stock units and other nonvested units of 937,094, 727,046 and 859,447 were issued with a weighted-average, grant-date fair value of \$35.30, \$46.63 and \$40.41.

#### NOTE 13. SHAREOWNERS' EQUITY

From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In November 2001, the Board of Directors authorized the repurchase of up to 100 million shares of SBC common stock. This is in addition to the authorization to repurchase 100 million shares in January 2000. As of December 31, 2002, we have repurchased a total of approximately 140 million shares of our common stock of the 200 million authorized to be repurchased. We do not expect to repurchase significant additional shares under these authorizations in 2003.

In 2000 and 2001, we entered into a series of put options on SBC stock which allowed institutional counterparties to sell us SBC shares at agreed-upon prices. The put options were exercisable only at maturity, and we had the right to settle the put options by physical settlement of the options or by net share settlement using shares of SBC common stock. At December 31, 2001, we had a maximum potential obligation to purchase nine million shares of our common stock at a weighted average exercise price of \$37.45 per share. We received cash of \$38 in 2001 and \$65 in 2000 from these transactions, which was credited to capital in excess of par value in shareowners' equity. During 2002, put options representing three million shares expired unexercised. Additionally in 2002, six million shares of our common stock were put to us under these options at a weighted average price of \$39.14 per share, which was approximately \$9 per share over the then-market price of our stock. As settlement of the obligation, we elected to purchase the shares instead of using net share settlement. The excess cash paid of approximately \$55 was debited to capital in excess of par value in shareowners' equity. We had no put options outstanding at December 31, 2002.

#### NOTE 14. SUBSIDIARY FINANCIAL INFORMATION

We have fully and unconditionally guaranteed certain outstanding debt securities of Pacific Bell Telephone Company (PacBell) and Southwestern Bell Telephone, L.P. (SBLP), which is a wholly owned subsidiary of Southwestern Bell Texas Holdings, Inc. (SWBell). On December 30, 2001, Southwestern Bell Telephone Company merged with and into Southwestern Bell Texas, Inc. and the survivor converted to SBLP. SWBell holds a 99% limited partner interest in SBLP and a 100% interest in SWBT Texas LLC, the 1% owner and general partner of SBLP.

In accordance with SEC rules, we are providing the following condensed consolidating financial information. The Parent column presents investments in all subsidiaries under the equity method of accounting. We have listed PacBell and SWBell separately because we have guaranteed securities that are legal obligations of PacBell and SWBell that would otherwise require SEC periodic reporting. All other wholly owned subsidiaries are presented in the Other column. The consolidating adjustments column (Adjs.) eliminates the intercompany balances and transactions between our subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

**Condensed Consolidating Statements of Income**

For the Twelve Months Ended December 31, 2002

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	\$ —	\$10,210	\$11,248	\$24,294	\$(2,614)	\$43,138
Total operating expenses	(146)	7,796	8,637	20,842	(2,614)	34,515
<b>Operating Income</b>	<b>146</b>	<b>2,414</b>	<b>2,611</b>	<b>3,452</b>	<b>—</b>	<b>8,623</b>
Interest expense	424	300	265	768	(375)	1,382
Equity in net income of affiliates	4,695	—	—	1,936	(4,710)	1,921
Royalty income (expense)	118	(399)	(449)	730	—	—
Other income (expense) – net	589	(3)	11	1,059	(361)	1,295
<b>Income Before Income Taxes</b>	<b>5,124</b>	<b>1,712</b>	<b>1,908</b>	<b>6,409</b>	<b>(4,696)</b>	<b>10,457</b>
Income taxes	(529)	696	691	2,126	—	2,984
<b>Income Before Cumulative Effect of Accounting Change</b>	<b>5,653</b>	<b>1,016</b>	<b>1,217</b>	<b>4,283</b>	<b>(4,696)</b>	<b>7,473</b>
Cumulative Effect of Accounting Change	—	—	—	(1,820)	—	(1,820)
<b>Net Income</b>	<b>\$5,653</b>	<b>\$ 1,016</b>	<b>\$ 1,217</b>	<b>\$ 2,463</b>	<b>\$(4,696)</b>	<b>\$ 5,653</b>

**Condensed Consolidating Statements of Income**

For the Twelve Months Ended December 31, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	\$ —	\$10,842	\$11,802	\$24,766	\$(1,502)	\$45,908
Total operating expenses	(78)	7,448	8,775	20,757	(1,502)	35,400
<b>Operating Income</b>	<b>78</b>	<b>3,394</b>	<b>3,027</b>	<b>4,009</b>	<b>—</b>	<b>10,508</b>
Interest expense	528	365	362	928	(584)	1,599
Equity in net income of affiliates	6,501	—	—	1,593	(6,499)	1,595
Royalty income (expense)	471	(414)	(471)	414	—	—
Other income (expense) – net	424	6	—	631	(587)	474
<b>Income Before Income Taxes</b>	<b>6,946</b>	<b>2,621</b>	<b>2,194</b>	<b>5,719</b>	<b>(6,502)</b>	<b>10,978</b>
Income taxes	(62)	1,064	809	2,141	—	3,952
<b>Income Before Extraordinary Items</b>	<b>7,008</b>	<b>1,557</b>	<b>1,385</b>	<b>3,578</b>	<b>(6,502)</b>	<b>7,026</b>
Extraordinary Items	—	—	—	(18)	—	(18)
<b>Net Income</b>	<b>\$7,008</b>	<b>\$ 1,557</b>	<b>\$ 1,385</b>	<b>\$ 3,560</b>	<b>\$(6,502)</b>	<b>\$ 7,008</b>

**Condensed Consolidating Statements of Income**

For the Twelve Months Ended December 31, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	\$ —	\$10,356	\$11,580	\$30,778	\$(1,340)	\$51,374
Total operating expenses	(161)	7,477	8,675	26,253	(1,340)	40,904
<b>Operating Income</b>	<b>161</b>	<b>2,879</b>	<b>2,905</b>	<b>4,525</b>	<b>—</b>	<b>10,470</b>
Interest expense	504	391	383	1,379	(1,065)	1,592
Equity in net income of affiliates	7,274	—	—	961	(7,338)	897
Royalty income (expense)	460	(407)	(460)	407	—	—
Other income (expense) – net	728	2	10	3,105	(1,004)	2,841
<b>Income Before Income Taxes</b>	<b>8,119</b>	<b>2,083</b>	<b>2,072</b>	<b>7,619</b>	<b>(7,277)</b>	<b>12,616</b>
Income taxes	319	830	762	2,905	—	4,816
<b>Net Income</b>	<b>\$7,800</b>	<b>\$ 1,253</b>	<b>\$ 1,310</b>	<b>\$ 4,714</b>	<b>\$(7,277)</b>	<b>\$ 7,800</b>

**Condensed Consolidating Balance Sheets**

December 31, 2002

	Parent	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	\$ 3,406	\$ 3	\$ 10	\$ 148	\$ —	\$ 3,567
Accounts receivable – net	1,257	2,060	1,928	18,164	(14,869)	8,540
Other current assets	319	309	451	903	—	1,982
Total current assets	4,982	2,372	2,389	19,215	(14,869)	14,089
Property, plant and equipment – net	126	12,915	14,846	20,603	—	48,490
Goodwill	349	—	—	1,294	—	1,643
Investments in equity affiliates	33,953	—	—	8,308	(31,791)	10,470
Other assets	10,166	2,054	332	8,589	(776)	20,365
Total Assets	\$49,576	\$17,341	\$17,567	\$58,009	\$(47,436)	\$95,057
Debt maturing within one year	\$ 1,052	\$ 1,287	\$ 2,686	\$ 8,341	\$ (9,861)	\$ 3,505
Other current liabilities	798	3,073	3,199	9,116	(5,008)	11,178
Total current liabilities	1,850	4,360	5,885	17,457	(14,869)	14,683
Long-term debt	7,513	3,676	2,608	5,471	(732)	18,536
Postemployment benefit obligation	3,534	3,064	3,331	4,165	—	14,094
Other noncurrent liabilities	3,480	2,474	1,722	6,913	(44)	14,545
Total shareowners' equity	33,199	3,767	4,021	24,003	(31,791)	33,199
Total Liabilities and Shareowners' Equity	\$49,576	\$17,341	\$17,567	\$58,009	\$(47,436)	\$95,057

**Condensed Consolidating Balance Sheets**

December 31, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	\$ 445	\$ 4	\$ 99	\$ 155	\$ —	\$ 703
Accounts receivable – net	4,945	2,223	1,919	13,438	(13,149)	9,376
Other current assets	305	381	838	977	—	2,501
Total current assets	5,695	2,608	2,856	14,570	(13,149)	12,580
Property, plant and equipment – net	118	13,522	15,588	20,599	—	49,827
Goodwill	—	—	—	3,577	—	3,577
Investments in equity affiliates	34,889	—	—	14,894	(37,816)	11,967
Other assets	8,196	2,382	428	11,083	(3,718)	18,371
Total Assets	\$48,898	\$18,512	\$18,872	\$64,723	\$(54,683)	\$96,322
Debt maturing within one year	\$ 8,094	\$ 2,594	\$ 3,914	\$ 2,654	\$ (8,223)	\$ 9,033
Other current liabilities	690	3,711	3,735	11,705	(4,926)	14,915
Total current liabilities	8,784	6,305	7,649	14,359	(13,149)	23,948
Long-term debt	4,137	3,673	2,868	10,125	(3,670)	17,133
Postemployment benefit obligation	57	2,860	2,996	3,926	—	9,839
Other noncurrent liabilities	3,001	1,761	1,320	6,449	(48)	12,483
Total shareowners' equity	32,919	3,913	4,039	29,864	(37,816)	32,919
Total Liabilities and Shareowners' Equity	\$48,898	\$18,512	\$18,872	\$64,723	\$(54,683)	\$96,322

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

## Condensed Consolidating Statements of Cash Flows

Twelve Months Ended December 31, 2002

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	\$11,550	\$ 3,783	\$ 4,309	\$ 7,206	\$(11,638)	\$ 15,210
Net cash from investing activities	6	(1,312)	(1,673)	(2,446)	2,097	(3,328)
Net cash from financing activities	(8,595)	(2,472)	(2,725)	(4,767)	9,541	(9,018)
Net Increase (Decrease) in Cash	\$ 2,961	\$ (1)	\$ (89)	\$ (7)	\$ —	\$ 2,864

## Condensed Consolidating Statements of Cash Flows

Twelve Months Ended December 31, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	\$ 1,150	\$ 3,395	\$ 3,285	\$12,880	\$ (5,905)	\$ 14,805
Net cash from investing activities	1,328	(2,397)	(2,996)	(5,416)	1,094	(8,387)
Net cash from financing activities	(2,469)	(1,003)	(242)	(7,455)	4,811	(6,358)
Net Increase (Decrease) in Cash	\$ 9	\$ (5)	\$ 47	\$ 9	\$ —	\$ 60

## Condensed Consolidating Statements of Cash Flows

Twelve Months Ended December 31, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	\$ 3,853	\$ 3,197	\$ 4,152	\$ 5,311	\$ (2,447)	\$ 14,066
Net cash from investing activities	(4,154)	(2,679)	(3,630)	(3,873)	166	(14,170)
Net cash from financing activities	637	(521)	(519)	(1,626)	2,281	252
Net Increase (Decrease) in Cash	\$ 336	\$ (3)	\$ 3	\$ (188)	\$ —	\$ 148

## NOTE 15. ADDITIONAL FINANCIAL INFORMATION

	December 31,		
	2002	2001	2000
<b>Balance Sheets</b>			
Accounts payable and accrued liabilities:			
Accounts payable	\$3,407	\$ 3,959	
Advance billing and customer deposits	1,240	1,317	
Compensated future absences	858	1,017	
Accrued interest	446	486	
Accrued payroll	514	669	
Other	2,948	4,011	
<b>Total</b>	<b>\$9,413</b>	<b>\$11,459</b>	
<b>Statements of Income</b>	2002	2001	2000
Advertising expense	\$ 432	\$ 363	\$ 774
Interest expense incurred	\$1,440	\$1,718	\$1,693
Capitalized interest	(58)	(119)	(101)
<b>Total interest expense</b>	<b>\$1,382</b>	<b>\$1,599</b>	<b>\$1,592</b>
<b>Statements of Cash Flows</b>	2002	2001	2000
Cash paid during the year for:			
Interest	\$1,480	\$1,546	\$1,681
Income taxes, net of refunds	1,315	2,696	3,120

No customer accounted for more than 10% of consolidated revenues in 2002, 2001 or 2000.

## NOTE 16. RELATED PARTY TRANSACTIONS

We made advances to Cingular that totaled \$5,922 at December 31, 2002, and \$5,924 at December 31, 2001. The advances bear interest at an annual rate of 7.5%. In November 2002, we extended the maturity of the advances from March 31, 2004, to March 31, 2005. We may continue to extend the maturity of the advances to the extent required in connection with Cingular's external credit facility. During 2002, 2001 and 2000, we earned \$441, \$555 and \$154 of interest income on these advances. In addition, for access and long-distance services sold to Cingular on a wholesale basis, we generated revenue of \$365, \$120 and \$37 in 2002, 2001 and 2000.

## NOTE 17. CONTINGENT LIABILITIES

In addition to issues specifically discussed elsewhere, we are party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In our opinion, although the outcomes of these proceedings are uncertain, they should not have a material adverse effect on the company's financial position, results of operations or cash flows.

**NOTE 18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share	Stock Price		
						High	Low	Close
<b>2002</b>								
First	\$10,522	\$ 2,182	\$ (193)	\$(0.06)	\$(0.06)	\$40.99	\$34.29	\$37.44
Second	10,843	2,164	1,782	0.53	0.53	38.40	27.85	30.50
Third	10,556	2,029	1,709	0.51	0.51	31.96	19.57	20.10
Fourth	11,217	2,248	2,355	0.71	0.71	29.10	19.80	27.11
Annual	\$43,138	\$ 8,623	\$5,653	1.70	1.69			
<b>2001</b>								
First	\$11,190	\$ 2,574	\$1,801	\$ 0.53	\$ 0.53	\$53.06	\$39.50	\$44.63
Second	11,477	2,984	2,015	0.60	0.59	45.68	38.20	40.06
Third	11,338	2,716	2,006	0.60	0.59	47.50	39.74	47.12
Fourth	11,903	2,234	1,186	0.35	0.35	47.25	36.50	39.17
Annual	\$45,908	\$10,508	\$7,008	2.08	2.07			

The income and earnings per share data in the table above has been restated for our adoption of FAS 123, as amended by FAS 148 (see Note 1). This restatement decreased our previously reported operating income, net income, basic earnings per share and diluted earnings per share for the first three quarters of 2002 and for all four quarters of 2001. The following table summarizes these quarterly impacts:

Calendar Quarter	Operating Income	Net Income	Basic Earning Per Share	Diluted Earning Per Share
<b>2002</b>				
First	\$(124)	\$(83)	\$(0.03)	\$(0.03)
Second	(93)	(63)	(0.02)	(0.02)
Third	(92)	(61)	(0.02)	(0.02)
<b>2001</b>				
First	\$ (85)	\$(53)	\$(0.02)	\$(0.01)
Second	(93)	(56)	(0.02)	(0.02)
Third	(106)	(66)	(0.02)	(0.02)
Fourth	(96)	(59)	(0.02)	(0.02)

The first quarter of 2002 includes a cumulative effect of accounting change of \$1,820, or \$0.54 per share, from the adoption of FAS 142 (see Note 1). The first and second quarters of 2001 include extraordinary losses of \$10 and \$8 for a total of \$18, or \$0.01 per share, related to the early redemption of \$1,000 of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts (TOPRS). There were also special items which are included in the information above but are excluded from the information that management uses to evaluate the performance of each segment of the business. For detail regarding the specific income statement impact of each item as well as the affected segment(s), (see Note 4).

The quarterly impact of the year 2002 special items was as follows:

- A tax benefit of \$280 in the fourth quarter resulting from an internal restructuring of our ownership of several investments, including Sterling (see Note 2).
- Income of \$326 (\$212 net of tax) in the third quarter consisting of 1) income of \$371 (\$257 net of tax) from our proportionate share of the gains at TDC and Belgacom related to the disposition of their Netherlands wireless operations as a result of a call by a subsidiary of Deutsche Telekom. The components of this amount included a gain at Belgacom of \$75 (\$49 net of tax) on the disposition and a direct and indirect gain at TDC of \$296 (\$208 net of tax); 2) a gain of \$13 (with no tax effect) for a reduction in a previously recorded restructuring accrual at a TDC affiliate; and 3) a charge of \$58 (with no tax effect) related to impairments on TDC's investments in Poland, Norway and the Czech Republic.
- Combined charges of \$228 (\$152 net of tax) in the second quarter, \$185 (\$113 net of tax) in the third quarter and \$459 (\$276 net of tax) in the fourth quarter for enhanced pension benefits, pension settlements, severance costs and real estate costs related to work force-reduction programs.
- A charge of \$19 (\$12 net of tax) in the third quarter for our proportionate share of severance and restructuring costs at Cingular and charges of \$123 (\$76 net of tax) in the fourth quarter for our proportionate share of impairments, severance and restructuring costs at Cingular. The impairments included, among other items, write-downs related to Cingular interactive paging and transmission equipment in markets with complete system conversions.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Dollars in millions except per share amounts

- A charge of \$101 (\$68 net of tax) in the second quarter representing our proportionate share of restructuring costs at Belgacom. These costs were primarily related to a work force-reduction initiative.
- A gain of \$148 (\$118 net of tax) in the second quarter and \$455 (\$425 net of tax) in the fourth quarter on the redemption of our interest in Bell Canada.
- Additional bad debt reserves of \$125 (\$84 net of tax) in the second quarter as a result of the July 2002 WorldCom bankruptcy filing.

The quarterly impact of the year 2001 special items was as follows:

- Pension settlement gains of \$526 (\$329 net of tax) in the first quarter, \$315 (\$189 net of tax) in the second quarter, \$123 (\$72 net of tax) in the third quarter and \$133 (\$98 net of tax) in the fourth quarter related to management employees, primarily resulting from a fourth-quarter 2000 voluntary retirement program net of costs associated with that program.
- Combined charges of \$401 (\$261 net of tax) in the second quarter primarily related to valuation adjustments of Williams as well as certain other cost investments accounted for under FAS 115. The charges resulted from an evaluation that the decline was other than temporary.
- Reduction of a valuation allowance of \$120 (\$78 net of tax) in the second quarter on a note receivable related to the sale of SecurityLink. The note was collected in July 2001.

- Combined charges of \$316 (\$205 net of tax) in the first quarter related to impairment of our cable operations.
- A charge of \$390 (\$262 net of tax) indicated by a transaction pending as of December 31, 2001, to reduce the direct and indirect book value of our investment in Telecom Américas.
- A charge of \$197 (with no tax effect) in the fourth quarter for costs related to TDC's decision to discontinue nonwireless operations of its Talkline subsidiary and our impairment of the goodwill we allocated to Talkline.
- A charge of \$197 (\$128 net of tax) in the fourth quarter representing a proposed settlement agreement with the ICC related to a provision of the Ameritech merger. The amount represents an estimate of all future savings to be shared with our Illinois customers.
- Combined charges of \$619 (\$425 net of tax) in the fourth quarter associated with our comprehensive review of operations, which resulted in decisions to reduce work force, terminate certain real estate leases and shut down certain operations (see Note 2).

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

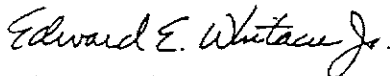
The financial statements of SBC Communications Inc. (SBC) have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all of SBC's financial records and related data, as well as the minutes of shareowners' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management has established and maintains a system of internal accounting controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The concept of reasonable assurance recognizes that the costs of an internal accounting controls system should not exceed, in management's judgment, the benefits to be derived.

Management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by SBC is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization. Management regularly monitors the system of internal accounting controls for compliance. SBC maintains an internal auditing program that independently assesses the effectiveness of the internal accounting controls and recommends improvements thereto.

The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.



Edward E. Whitacre Jr.  
Chairman of the Board and  
Chief Executive Officer



Randall Stephenson  
Senior Executive Vice President and  
Chief Financial Officer

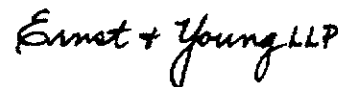
The Board of Directors and Shareowners  
SBC Communications Inc.

We have audited the accompanying consolidated balance sheets of SBC Communications Inc. (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SBC Communications Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, in 2002 the Company changed its method of accounting for stock-based compensation and retroactively, restated the 2001 and 2000 financial statements for the change. Also, as discussed in Note 1 to the financial statements, in 2002 the Company changed its method of accounting for goodwill and other intangibles.



San Antonio, Texas  
February 7, 2003

# SBC BOARD OF DIRECTORS

(as of March 1, 2003)

## Edward E. Whitacre Jr., 61<sup>(2,5,6)</sup>



Chairman of the Board and Chief Executive Officer  
SBC Communications Inc.

San Antonio, Texas

SBC Director since October 1986

Background: Telecommunications

## Gilbert F. Amelio, Ph.D., 60<sup>(4,7)</sup>



Senior Partner  
Sienna Ventures  
Sausalito, California  
SBC Director since

February 2001

Advisory Director 1997-2001

Pacific Telesis Director 1995-1997

Background: Technology, electronics engineering

## Clarence C. Barksdale, 70<sup>(1,4)</sup>



Retired Chairman of the Board and Chief Executive Officer  
Center Bancorporation

St. Louis, Missouri

SBC Director since October 1983

Southwestern Bell Telephone Director 1982-1983

Background: Banking

## James E. Barnes, 69<sup>(2,7)</sup>



Chairman of the Board, President and Chief Executive Officer  
(Retired)

MAPCO Inc.

Tulsa, Oklahoma

SBC Director since November 1990

Background: Diversified energy

## August A. Busch III, 65<sup>(2,3,5)</sup>



Chairman of the Board  
Anheuser-Busch Companies, Inc.

St. Louis, Missouri

SBC Director since October 1983

Southwestern Bell Telephone

Director 1980-1983

Background: Brewing, family entertainment, transportation, manufacturer of aluminum beverage containers

## The Honorable

## William P. Clark, 71<sup>(2,4)</sup>



Senior Counsel  
Clark, Cali and Negranti, LLP  
San Luis Obispo, California

SBC Director since April 1997

Pacific Telesis Director 1985-1997

Background: Law, ranching

## Martin K. Eby Jr., 68<sup>(1,7)</sup>



Chairman of the Board  
The Eby Corporation  
Wichita, Kansas  
SBC Director since

June 1992

Background: General building construction

## Herman E. Gallegos, 72<sup>(1,4)</sup>



Independent  
Management Consultant  
Galt, California

SBC Director since April 1997

Pacific Telesis Director 1983-1997

Background: Management consulting

## Jess T. Hay, 72<sup>(1,3)</sup>



Chairman  
HCB Enterprises Inc  
Chairman  
Texas Foundation for

Higher Education, Dallas, Texas

SBC Director since April 1986

Background: Financial services

## James A. Henderson, 68<sup>(6,7)</sup>



Retired Chairman and Chief Executive Officer  
Cummins Inc.  
Columbus, Indiana

SBC Director since October 1999

Ameritech Director 1983-1999

Background: Manufacturing

## Admiral Bobby R. Inman, 71<sup>(3,6)</sup>



United States Navy,  
Retired  
Austin, Texas  
SBC Director since

March 1985

Background: Private investment, education

## Charles F. Knight, 67<sup>(2,5,6)</sup>



Chairman of the Board  
Emerson Electric Co.  
St. Louis, Missouri  
SBC Director since

October 1983

Southwestern Bell Telephone

Director 1974-1983

Background: Electrical manufacturing

## Lynn M. Martin, 63<sup>(4,6)</sup>



Chair of the Council  
for the Advancement  
of Women  
Advisor to the Firm

Deloitte & Touche LLP

Professor, J.L. Kellogg

Graduate School of Management

Northwestern University

Chicago, Illinois

SBC Director since October 1999

Ameritech Director 1993-1999

Background: Consulting, former Congresswoman and Secretary of Labor

## John B. McCoy, 59<sup>(2,3)</sup>



Retired Chairman and  
Chief Executive Officer  
BANK ONE CORPORATION  
Columbus, Ohio

SBC Director since October 1999

Ameritech Director 1991-1999

Background: Banking

## Mary S. Metz, Ph.D., 65<sup>(3,4)</sup>



President  
S. H. Cowell Foundation  
San Francisco, California  
SBC Director since

April 1997

Pacific Telesis Director 1986-1997

Background: Education, administration

## Toni Rembe, Esq., 66<sup>(2,4)</sup>



Partner  
Pillsbury Winthrop LLP  
San Francisco, California  
SBC Director since

January 1998

Advisory Director 1997-1998

Pacific Telesis Director 1991-1997

Background: Law

## S. Donley Ritchey, 69<sup>(1,3)</sup>



Managing Partner  
Alpine Partners  
Chairman and Chief  
Executive Officer

(Retired)

Lucky Stores, Inc.

Danville, California

SBC Director since April 1997

Pacific Telesis Director 1984-1997

Background: Diversified retail

## Joyce M. Roché, 55<sup>(4,6)</sup>



President and Chief  
Executive Officer  
Girls Incorporated  
New York, New York

SBC Director since October 1998

Southern New England

Telecommunications

Director 1997-1998

Background: Marketing

## Ing. Carlos Slim Helú, 63<sup>(4,6)</sup>



Chairman of the Board  
Carso Global Telecom,  
S.A. de C.V.  
Chairman of the Board

Teléfonos de México, S.A. de C.V.

Chairman of the Board

América Móvil, S.A. de C.V.

Mexico City, Mexico

SBC Director since September 1993

Background: Telecommunications, consumer goods, automobile parts, construction, retailing

## Dr. Laura D'Andrea Tyson, 55<sup>(2,6)</sup>



Dean  
London Business School  
London, England  
SBC Director since

October 1999

Ameritech Director 1997-1999

Background: Economics, education

## Patricia P. Upton, 64<sup>(4,7)</sup>



President and  
Chief Executive Officer  
Aromatique, Inc.  
Heber Springs, Arkansas

SBC Director since June 1993

Background: Manufacturing and marketing of decorative home fragrances

## Committees of the Board:

- (1) Audit
- (2) Corporate Development
- (3) Corporate Governance and Nominating Committee
- (4) Corporate Public Policy and Environmental Affairs
- (5) Executive
- (6) Finance/Pension
- (7) Human Resources

# EXECUTIVES OF SBC AND ITS SUBSIDIARIES

## SBC Senior Executives

**Edward E. Whitacre Jr., 61**  
Chairman & CEO  
SBC Communications Inc.

**John H. Atterbury III, 54**  
Group President-Operations  
SBC Communications Inc.

**James W. Callaway, 56**  
Group President  
SBC Communications Inc.

**William M. Daley, 54**  
President  
SBC Communications Inc.

**James D. Ellis, 59**  
Senior Executive Vice President  
& General Counsel  
SBC Communications Inc.

**Karen E. Jennings, 52**  
Senior Executive Vice President-  
Human Resources and Communications  
SBC Communications Inc.

**James S. Kahan, 55**  
Senior Executive Vice President-  
Corporate Development  
SBC Communications Inc.

**Forrest E. Miller, 50**  
Group President-Corporate Planning  
SBC Communications Inc.

**Randall L. Stephenson, 42**  
Senior Executive Vice President & CFO  
SBC Communications Inc.

**Rayford Wilkins Jr., 51**  
Group President-SBC Marketing and Sales  
SBC Communications Inc.

## Other Executives

**Dorothy T. Attwood, 43**  
Senior Vice President-Federal  
Regulatory Strategy and Integration  
SBC Telecommunications, Inc.

**Terry D. Bailey, 46**  
President-Consumer Markets  
SBC Southwest

**William A. Blase Jr., 47**  
President & CEO  
SBC Southern New England  
Telecommunications

**Kirk R. Brannock, 45**  
President-Network Services  
SBC Midwest

**Cynthia J. Brinkley, 43**  
President-Missouri  
SBC Missouri

**Connie L. Browning, 49**  
President-Ohio  
SBC Ohio

**Louis R. Casali, 51**  
President  
SBC Advanced Solutions, Inc.  
SBC Internet Services

**Margaret M. Cerrudo, 54**  
Senior Vice President-HR Services  
SBC Operations, Inc.

**Lea Ann Champion, 44**  
Senior Executive Vice President &  
Chief Marketing Officer  
SBC Operations, Inc.

**Frederick R. Chang, 47**  
President-Technology Strategy  
SBC Operations, Inc.

**David A. Cole, 54**  
President-Industry Markets  
SBC Telecommunications, Inc.

**Catherine M. Coughlin, 45**  
President-Valued Signature and ISP/MMA  
Business Communications Services  
SBC Midwest

**Patricia Diaz Dennis, 56**  
Senior Vice President,  
General Counsel & Secretary  
SBC West

**Richard C. Dietz, 56**  
President and Chief Executive Officer  
SBC Enterprises, Inc.

**Maurice E. Drilling, 47**  
President-Arkansas  
SBC Arkansas

**James M. Epperson Jr., 47**  
Senior Vice President-  
State Legislative and Political Affairs  
SBC Telecommunications, Inc.

**Robert E. Ferguson, 43**  
President-Business Communications Services  
SBC West

**George S. Fleetwood, 49**  
President-Indiana  
SBC Midwest

**Andrew M. Geisse, 46**  
Vice President-Enterprise  
Software Solutions  
SBC Services, Inc.

**Michael N. Gilliam, 50**  
Vice President-Long Distance  
Compliance Relief  
SBC Telecommunications, Inc.

**Edward L. Glotzbach, 54**  
Executive Vice President &  
Chief Information Officer  
SBC Operations, Inc.

**Ynocencio Gonzalez, 45**  
President  
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**Angiolina M. Wiskocil, 50**  
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SBC Operations, Inc.

## SHAREOWNER INFORMATION

### Toll-Free Shareowner Hotline

Call us at 1-800-351-7221 between 8 a.m. and 7 p.m. Central Time Monday through Friday. TDD 1-888-403-9700  
For help with:

- Account inquiries
- Requests for assistance, including stock transfers
- Information on The DirectSERVICE™ Investment Program for Shareholders of SBC Communications Inc. (sponsored and administered by EquiServe Trust Company, N.A.)

### Written Requests

Please mail all account inquiries and other requests for assistance regarding your stock ownership to:

SBC Communications Inc.  
c/o EquiServe Trust Company, N.A.  
P. O. Box 43078  
Providence, RI 02940-3078

Please mail requests for transactions involving stock transfers or account changes to:

SBC Communications Inc.  
c/o EquiServe Trust Company, N.A.  
P. O. Box 43070  
Providence, RI 02940-3070

You also may reach the Transfer Agent for SBC, at their e-mail address:  
[sbc@equiserve.com](mailto:sbc@equiserve.com)

### The DirectSERVICE™ Investment Program for Shareholders of SBC Communications Inc.

Inc. is sponsored and administered by EquiServe Trust Company, N.A. The Program allows current shareowners to reinvest dividends, purchase additional SBC stock or enroll in an Individual Retirement Account.

For more information, call  
1-800-351-7221.

### Stock Trading Information

SBC is listed on the New York, Chicago and Pacific stock exchanges as well as The Swiss Exchange. SBC is traded on the London Stock Exchange through the SEAQ International Markets facility.

Ticker symbol (NYSE): SBC

Newspaper stock listing: SBC or  
SBC Comm

### Information on the Internet

Information about SBC is available on the Internet. Visit our home page on the World Wide Web: <http://www.sbc.com>

### Annual Meeting

The annual meeting of shareowners will be held at 9:00 a.m. Friday, April 25, 2003, at:

University of the Incarnate Word  
847 E. Hildebrand, Sky Room  
San Antonio, Texas 78212

### Independent Auditor

Ernst & Young LLP  
1900 Frost Bank Tower  
100 W. Houston  
San Antonio, Texas 78205

### Requests for 10-K

The SBC Form 10-K, filed with the Securities and Exchange Commission, is available in paper form by request and also is available on our home page on the World Wide Web:  
<http://www.sbc.com>

### Investor Relations

Securities analysts and other members of the professional financial community may call the Investor Relations Hotline:  
210-351-3327

### General Information – Corporate Offices

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